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SUBJECT: New Currency Rings in the New Year; 2004
Inflation lowest since 1975

Ref: Ankara 5553

1. (SBU) Summary: Turkey rang in the New Year by successfully putting into circulation the New Turkish Lira, which eliminated six zeros from the old lira. Despite fears of operational problems associated with the introduction, the Turkish Central Bank said today that commercial banks, inter-bank payments systems and money markets adjusted to the new currency in a shorter period than expected on New-Year's Eve. The successful introduction symbolizes a fresh start for Turkey, after three decades of high inflation devalued the old lira. It is also another feather in the cap of the GOT and, especially, the independent Central Bank, which had the lead on introducing the new bills. After trading closed today, the release of full-year 2004 inflation data showed that Turkey experienced the lowest inflation since 1975, with the consumer price index increasing only 9.32%. End Summary.

Successful Introduction of the New Lira

2. (SBU) The process of introducing the New Turkish Lira (YTL in Turkish), which was launched on January 31, 2004 with the new currency law, culminated in the placement in circulation of the new currency on January 1, 2005. As reported refetel, the new currency deletes six zeros from the old currency's value, and will circulate along with old lira banknotes and coins until December 31, 2005.

3. (SBU) The Central Bank established a "surveillance" team on New Year's Eve to react immediately as any problem occurs during the transition. Central Bank vice-governor Sukru Binay, who is heading the new Turkish Lira project, told econ specialist that as of 2:30 p.m. local time January 3, 2005 -- first business day for the new currency -- the CBT has not observed any significant problems in any markets about applicability of the New Turkish Lira. Press reports also describe a generally problem-free weekend conversion, with over 99% of ATM's and retail points of sale changing over to YTL.

4. (SBU) Markets were quiet on the first working day of the New TL, partially because London was closed and local markets waited for 2004 inflation figures to be announced today after markets closed. Neither currency nor government securities markets have moved significantly today, with the YTL being traded at 1.3448 in the inter-bank market, and the benchmark government bond yield around 20.31 percent. The more volatile stock market (IMKB-100) is up almost 2 percent.

2004 Inflation Lowest since 1975

5. (U) After financial markets closed, the National Statistics Institute (DIE) announced the December inflation data that put the CPI and WPI inflation at 9.32 percent and 13.84 percent respectively for 2004. CPI increased 0.45 percent, WPI increased 0.13 percent and core (private sector Manufacturing index) increased only 0.2 percent in December -- lower than markets' expectations. The CPI number was better than the 10 percent target (originally 12 percent) for 2004. Reuters reported a Central Bank source saying the 9.32 percent annual CPI inflation was the lowest since 1975.

Comment

6. (SBU) Though only a symbolic and practical step, rather than one of fundamental macroeconomic importance, the apparently successful changeover to the New Lira symbolizes Turkey's transition to a more stable, low-inflation economy. Coming at the same time as 2004 inflation came in at record low single digits, it is also another feather in the cap of the GOT and, especially,

the independent Central Bank. Though the GOT had responsibility for minting new coins, the Central Bank had the more critical responsibility for banknotes.
Edelman